

OUTLOOK

A Publication of the South Dakota Retirement System

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Board Action

Board's Legislative Package Would Bring Changes in Plan Provisions

At its December meeting, the SDRS Board of Trustees gave final approval to their legislative package for 2004. If passed by the Legislature, the board's proposals would:

- reduce the amount final average compensation can increase just prior to retirement (phased in over two years)
- increase the cost of purchasing the Optional Spouse Benefit
- decrease the maximum amount of interest the system pays on accumulated contributions and remove the minimum amount
- increase the cost of purchasing credited service
- tighten the provisions that apply to reemployment after retirement (retire/rehire policy)
- create a tax-deferred Special Pay Plan (401a) that allows retiring members to shelter lump-sum payments, such as sick leave and vacation pay, from Social Security taxes and federal income taxes

- change the definition of termination pay so that it is not considered as compensation for

the purposes of calculating an SDRS benefit

... continued on page 6

Fact sheets similar to the one below summarize SDRS' proposed legislation for 2004. The fact sheets are available on SDRS' Web site: www.state.sd.us/sdrs/

Special Pay Plan

THE ISSUE

Termination pay (annual leave, sick leave, contract buyouts, retirement incentives and all other lump-sum payments) is currently paid directly to members and is subject to Social Security taxes, SDRS contributions and federal income taxes.

THE COMPARISON

Special Pay Plan

Current Provisions

- * Termination pay made directly to member
- * Social Security taxes deducted
- * SDRS contributions deducted
- * Federal income taxes deducted

Proposed Changes

- * Termination pay made to Special Pay Plan
- * No Social Security taxes deducted
- * No SDRS contributions deducted*
- * No federal income taxes deducted (deferred until withdrawals made from the plan)
- * Assume that the SDRS proposal to eliminate termination pay from the definition of compensation becomes law.

THE APPLICATION

SDRS will create a Special Pay Plan that will significantly increase the value of termination pay by eliminating or deferring taxes and contributions. For example, a member receiving \$10,000 in termination pay currently pays over \$2,000 in taxes and contributions. Under the Special Pay Plan and the proposal to eliminate termination pay from the definition of compensation, there would be no deductions. This would permit the full amount of the termination pay to be made to the plan. (Federal income taxes would be paid upon withdrawal from the plan.)

An employer making \$100,000 in termination payments annually would save \$13,650 (\$7,600 in Social Security taxes and \$6,000 in SDRS contributions).

The plan would be mandatory for all members over age 55 receiving termination pay above \$2,000.

THE RESULT

Class A members and their employers would each save 13.65 percent of the termination pay because of the elimination of Social Security taxes (7.65 percent) and SDRS contributions (6 percent). In addition, members would defer the payment of federal income taxes until they made withdrawals from the Special Pay Plan.

Key Ideas

Understanding the Power of Actuarial Assumptions

When you plan for retirement, you make some basic assumptions about the future. You probably assume that you will live a life span of 85 years, that your income from SDRS and Social Security will be stable and that your personal investments will remain secure.

SDRS does much the same by establishing a set of assumptions about the future behavior of the system. According to actuary Koren Holden of Mellon Human Resources, those assumptions are powerful forces that are based on the economy's past performance and the system's past experience and demographics. Here are examples of the assumptions used by SDRS:

- the average annual rate of return on investments

- the rate of inflation
- the average life expectancy of a member
- the average length of time a member participates in SDRS
- the rate of members' salary increases
- the rate of disability among members
- the percentage of membership eligible for survivor benefits
- the average age at retirement
- life expectancy among both active and retired members

While these may seem technical and dry, don't be misled. A major change in any one of the assumptions could dramatically alter the plan's fiscal health — for better or worse. For instance, if SDRS increased the length of time it

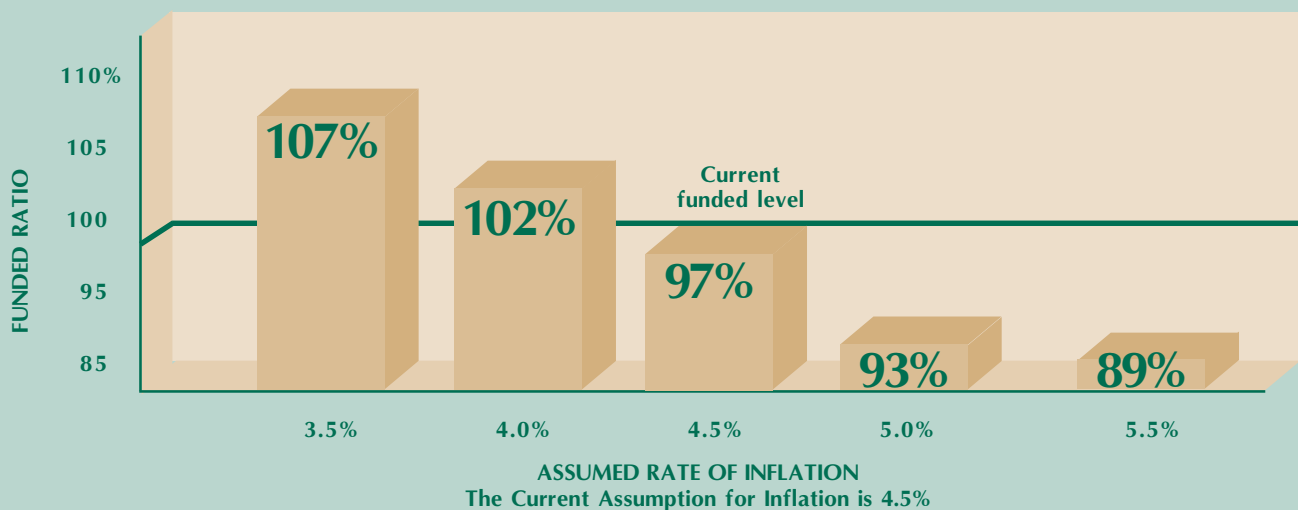
expects an average member to live by 10 percent, the system would add an additional \$300 million to its long-term obligations. That means fewer dollars for benefits. In contrast, if SDRS reduced the number of members it expects to become disabled in the future by 20 percent, the system's long-term obligations would drop as much as \$30 million, which means more dollars for benefits.

The Board's Review of Assumptions

SDRS reviews all of its assumptions every five to seven years. This cycle allows enough time for patterns of experience to emerge and indicate necessary changes. Scheduled to begin in the upcoming months, the next regular review will evaluate whether SDRS' assumptions are current and appropriate. "Assumptions are tools," says Holden. "For them to do the best job possible, we need to examine and fine tune them on a systematic basis." OUTLOOK

Changes in Assumptions Have a Major Effect on the Estimated Cost of SDRS

As an example of the affect a change in assumptions can have, the chart below illustrates that a 1 percent change in the inflation rate assumption can change the funded status of SDRS by almost 9 percent, a \$400 million change in liabilities. Changes in other assumptions may have more or less of an effect.



"We're going to reach out to our members . . ."

Future Focus

SDRS' Financial Security and Customer Service the Focus of New Administrator

The new SDRS administrator, Rob Wylie, has promised to bring a renewed focus on the financial security of the system and the services provided to members. "As stewards of the system, there is nothing more important than maintaining the financial integrity of SDRS not only today but for the next generation," says Wylie.

That emphasis is consistent with SDRS' long history of responsible financial management and full disclosure, which most recently earned the system the Government Finance Officer Association's Certificate of Achievement in Financial Reporting and the Public Pension Coordinating Council 2003 Award for Public Pension Standards. According to Wylie, the comprehensive review of SDRS during the next several months is part of the larger plan to maintain the strength of the system long-term. This review will include a number of plan provisions that may need operational changes as well as a complete review of the underlying actuarial assumptions used to project SDRS' financial strength.

Customer Service

While the system's financial security is the priority, Wylie is committed to expanding the services SDRS offers its members. "We intend to make maximum use of technology to reach out to our members," says Wylie. Ultimately that will include using the system's

"As stewards of the system, there is nothing more important than maintaining the financial integrity of SDRS not only today but for the next generation."

Web site to allow members to view confidential personal data such as their years of service, total contribu-

tions, and the amount of their projected retirement benefit. The site will also allow employers the convenience of filing reports and making contributions electronically.

But technology is only part of his plan for maximizing customer service. SDRS will expand the highly successful one-on-one pre-retirement counseling sessions that are now offered locally throughout the state. These sessions will be augmented by the attendance of SDRS' senior staff who will travel with the system's retirement planners and meet with members as well as with legislators and local officials. These local sessions will be interspersed with regional meeting's held for both members and SDRS' authorized agents. "We're going to reach out to our members," says Wylie, "and we're going to do it in ways that are defined by their convenience, not our own." 

For more information about the South Dakota Retirement System, check out the Web: <http://www.state.sd.us/sdrs/>

Understanding the System

Timing is Key to a Smooth Retirement Process

The transition from work to retirement can be smooth and easy if you follow the milestones provided in a new SDRS publication, *The Quick Reference Guide to Retirement Planning*. The guide summarizes what you need to do to prepare for retirement and when it needs to be accomplished. You can download and print the guide from the SDRS Web site at: www.state.sd.us/sdrs/publications/index.htm or call SDRS at 605-773-3731 and ask for a copy to

be mailed to you. You can find additional information about retirement options in the handbook *Income for Your Retirement*, also available on the Web site or from the SDRS office. **OUTLOOK**

You can download and print the guide from the SDRS Web site at: www.state.sd.us/sdrs/publications/index.htm



Quick Reference Guide for Class A Retirement

The Quick Reference Guide outlines the major milestones in the retirement process.

More Than One Year Prior to Retirement	10 months	8 months	6 months	3 months	2 months	Retirement
Finalize any requests to purchase additional SDRS-credited service. You must complete your purchase before retirement.	Request a benefit estimate from SDRS. SDRS will also send Form R-2, Applying for SDRS Retirement Benefits, and the Social Security Administration form, Request for Earnings and Benefit Estimate Statement, if applicable. Please allow at least three weeks for the estimate and forms to arrive.	Watch for and attend scheduled SDRS group meeting in your area. SDRS Retirement Planners will be available to discuss your retirement plans and to address any related questions you may have. You may contact SDRS prior to the meeting to schedule an individual appointment to review your specific retirement needs.	Complete and return SDRS Form R-2, Applying for SDRS Retirement Benefits, to SDRS with copies of your birth certificate and, if married, your spouse's birth certificate and your marriage certificate. SDRS must receive this form at least 75 days prior to your expected month of retirement. SDRS benefits begin the month after you receive your final paycheck. Review your beneficiary information and, necessary, request SDRS Form R-3, Beneficiary Designation Form to make any adjustments. If you are applying for the Level Income Payment Option (see other side for description of this payment option), verify the accuracy of the data on the Social Security Administration form, Request for Earnings and Benefit Estimate Statement, and complete the form. Send the completed form to Social Security — see to SDRS. In approximately 22 weeks, SDRS will send you an estimate of your Level Income Payment Option benefit and your benefit estimate from Social Security.	Notify your authorized agent of your retirement plans. Your authorized agent must send notice of your termination of contributory service to SDRS before your benefit only commences. Contact the Social Security Administration to request the Social Security benefit application form to complete the form online. Review the completed form to the Social Security Administration. You may schedule an appointment with your local Social Security office to review your benefit and to determine additional paperwork is necessary. (See other side for phone number.) Send in the optional Medicare Plan B if you are receiving the Social Security Administration anytime between three months before your 65th birthday to three months afterwards. You are automatically enrolled in the Medicare Plan A when you begin to receive Social Security benefits.	Check IRS regulations governing the dollar limit on your participation in the SDRS Supplemental Retirement Plan, and other retirement accounts that you participate in, to begin withdrawals. Complete and return Form W-4, Employee's Withholding Allowance Certificate and, if desired, SDRS Form R-4, Authorization for Direct Deposit of Benefit Payments. These forms are included with your SDRS retirement benefit estimate and the applying for SDRS Retirement Benefits form.	Expect to receive your first SDRS benefit payment the month following the date of your last paycheck. Direct deposits (ACH) are made on the 15th of each month and paper checks are mailed the same date.

Quick Reference Guide to Retirement

When Can You Retire?

Normal Retirement: Full benefits Age 65 with at least three years of SDRS credited service.
Early Retirement: Reduced benefits Age 62 or older with at least three years of SDRS credited service.
You may select the Level Income Payment Option if you take Early Retirement.
Special Early Retirement: Full benefits Age 60 and years of credited service equal to three times the Reduced Retirement Full benefit Age 60 age 55.

Level Income Payment Option

The Level Income Payment Option amounts the benefit payment from SDRS before you are eligible to start collecting Social Security benefits (social age 62) and determines the benefit payment from SDRS once you are eligible to collect Social Security benefits (later age 62). See your Income for Your Retirement handbook, page 33, or the SDRS Web site for complete details.

Documents You Need to Complete the Retirement Process

For SDRS:

- 1040 certificate
- 13 married, marriage certificate and spouse's birth certificate
- birth name and account number for direct deposits (voided check)
- if applying for the Level Income Payment Option, recent Social Security estimate

For Social Security:

- Original documents or copies certified by the issuing office are required.
- Social Security card
- if you were not born in the U.S., proof of citizenship or alien status
- if you are in the military, discharge papers
- birth certificates for dependent children
- last year's W-2 form

Contact Information

South Dakota Retirement System (SDRS) P.O. Box 3366 Pierre, SD 57501 605-773-3731 www.sdrs.state.sd.us	Social Security Administration (SSA) 14420 BLVD, 1ST FL 605-773-3223 www.socialsecurity.gov
Supplemental Retirement Plan (SRP) 227 East Capitol, Suite 10 Pierre, SD 57501 605-223-2236, Pierre 800-899-4227, Customer Service www.sdrsp.com	SDRS Local Office Aberdeen, 605-223-7231 Huron, 605-255-1421 Rapid City, 605-343-1318 Sioux Falls, 605-336-4034 Waterville, 605-886-6034 Yankton, 605-661-6661
External Business Service (EBS) 800-420-0948 www.ebs.gov	IRMA Sioux Falls, 723-225-9231

Quick Reference Guide to Retirement

SDRS STATE-WIDE INDIVIDUAL COUNSELING SCHEDULE


SCHEDULE DATE	CITY	COUNTY	LOCATION	ADDRESS	DEADLINE TO SCHEDULE
January 6, 2004	Chamberlain	Brule, Buffalo, Lyman	Cedar Shores Resort	1500 Shoreline Dr.	December 31
January 13, 2004	Hot Springs	Fall River, Shannon	Mueller Civic Center	801 S. 6th St.	January 8
January 20, 2004	Gregory	Gregory, Tripp	Braun Chiropractic Wild West Rm.	114 E. 6th St.	January 15
January 27, 2004	Watertown	Codington	Ramkota	1901 9th Ave. S.W.	January 22
February 3, 2004	Eureka	Edmunds, McPherson	Eureka Fire Hall	502 F Ave.	January 29
February 10, 2004	Mitchell	Davison, Hanson	Holiday Inn	1525 W. Havens	February 5
February 17, 2004	Murdo	Jones, Mellette	Jones County Courthouse	310 Main St.	February 12
February 24, 2004	Parkston	Hutchinson, Douglas	Senior Center	Main St.	February 19
March 2-3, 2004	Brookings	Brookings	Brookings Inn	2500 E. 6th St.	February 26
March 9, 2004	Mission	Todd	School Curriculum Center	School Campus	March 4
March 23-24, 2004	Sioux Falls (other agencies)	Minnehaha	Ramkota	2400 N. Louise	March 18
March 30, 2004	Platte	Charles Mix	1st Fidelity Bank	501 Main St.	March 25
April 6, 2004	Britton	Marshall	Community Building	909 S. Main	April 1
April 13, 2004	Estelline	Hamlin	Estelline Community Center	219 Main St.	April 8
April 20, 2004	Belle Fourche	Butte, Harding	Community Center	1111 National St.	April 15
April 27, 2004	Milbank	Grant	Super 8	E. Hwy. 12	April 22
May 4, 2004	Custer	Custer	Community Center	447 Crook St. Suite 2	April 29
May 11, 2004	Sturgis	Meade	Philtown Best Western	Exit 32 S. Junction	May 6
May 18, 2004	Canton	Lincoln	Canton Library	225 N. Broadway	May 13
May 25, 2004	Wessington Springs	Aurora, Jerauld	Community Room	205 Wallace Dr.	May 20
June 1, 2004	Gettysburg	Faulk, Potter	Medicine Rock Cafe	801 E. Hwy. 212	May 27
June 8, 2004	Webster	Day	Dakotah Bank	600 Main	June 3
June 15, 2004	Aberdeen	Brown	Ramkota	1408 8th Ave. N.W.	June 10
June 22, 2004	DeSmet	Kingsbury	Super 8	288 Hwy. 14 E.	June 17
June 29, 2004	Springfield	Bon Homme	TBA	TBA	June 24

Bringing Information to Members

SDRS Pre-retirement Counseling Available Locally

When members want advice about pre-retirement preparation, they turn to an SDRS retirement planner. Planners travel throughout the state presenting programs

on SDRS' structure and benefits, and consulting with individual members about financial preparations for retirement. If you are interested in an appointment with a retirement planner, contact the

SDRS office at 605-773-3731 at least one week before the planners are scheduled to be in your area. The chart above lists the planners' schedule through June 2004. 

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Board Action


Board's Legislative Package Would Bring Changes in Plan Provisions ... continued from page 1

- change the requirements for reporting the funding status of SDRS to the Legislature and governor

Although the issue was discussed, the board did not approve reduc-

ing the cost-of-living allowance (COLA) currently paid on SDRS benefits.

For a detailed explanation of the board's legislative package, please go to the SDRS Web site at www.state.sd.us/sdrs/. The site

contains a summary of the current provisions and the proposed changes. The status of SDRS legislation will be updated on the Web site each Friday during session. 

Inside This Issue ...

- 1** Board's Legislative Package Would Bring Changes in Plan Provisions

- 2** Understanding the Power of Actuarial Assumptions

- 3** SDRS' Financial Security and Customer Service the Focus of New Administrator

- 4** Timing is Key to a Smooth Retirement Process

- 5** SDRS Pre-retirement Counseling Available Locally

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